

**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
May 24, 2007 Through May 21, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
May 24, 2007 Through May 21, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Johnson County Sheriff for the period May 24, 2007 through May 21, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,660,174 for the districts for 2007 taxes, retaining commissions of \$269,976 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,388,364 to the districts for 2007 taxes. Taxes of \$1,093 are due to the districts from the Sheriff and refunds of \$433 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Roger T. Daniel, Johnson County Judge/Executive

Honorable Bill Witten, Johnson County Sheriff

Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the Johnson County Sheriff's Settlement - 2007 Taxes for the period May 24, 2007 through May 21, 2008. This tax settlement is the responsibility of the Johnson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Johnson County Sheriff's taxes charged, credited, and paid for the period May 24, 2007 through May 21, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Roger T. Daniel, Johnson County Judge/Executive

Honorable Bill Witten, Johnson County Sheriff

Members of the Johnson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

September 17, 2008

JOHNSON COUNTY
BILL WITTEN, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 24, 2007 Through May 21, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 575,321	\$ 841,179	\$ 3,074,295	\$ 750,945
Tangible Personal Property	63,828	128,890	404,855	182,823
Fire Protection	2,601			
Franchise Taxes	79,085	145,575	393,930	
Additional Billings	804	1,352	3,411	1,044
Unmined Coal - 2006 Taxes	4,623	6,201	19,097	5,977
Oil and Gas Property Taxes	19,829	28,992	81,195	25,882
Penalties	7,225	12,620	35,739	9,117
Adjusted to Sheriff's Receipt	<u>(5,901)</u>	<u>124,068</u>	<u>61</u>	<u>(6)</u>
Gross Chargeable to Sheriff	<u>747,415</u>	<u>1,288,877</u>	<u>4,012,583</u>	<u>975,782</u>
<u>Credits</u>				
Exonerations	5,555	10,054	24,245	7,251
Exonerations Decreases	79	106	325	102
Discounts	9,407	15,841	50,468	12,713
Delinquents:				
Real Estate	15,914	34,952	71,950	20,772
Tangible Personal Property	858	1,691	5,460	3,934
Franchise Taxes	<u>8,628</u>	<u>11,697</u>	<u>52,481</u>	
Total Credits	<u>40,441</u>	<u>74,341</u>	<u>204,929</u>	<u>44,772</u>
Taxes Collected	706,974	1,214,536	3,807,654	931,010
Less: Commissions *	<u>30,334</u>	<u>47,481</u>	<u>152,306</u>	<u>39,855</u>
Taxes Due	676,640	1,167,055	3,655,348	891,155
Taxes Paid	676,417	1,166,134	3,655,424	890,389
Refunds (Current and Prior Year)	<u>315</u>	<u>451</u>		<u>408</u>
Due Districts or		**	***	
(Refunds Due Sheriff)	<u>\$ (92)</u>	<u>\$ 470</u>	<u>\$ (76)</u>	<u>\$ 358</u>

*, **, and *** See Next Page.

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY
 BILL WITTEN, SHERIFF
 SHERIFF'S SETTLEMENT - 2007 TAXES
 For The Period May 24, 2007 Through May 21, 2008
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,715,245
4% on	\$	3,807,654
1% on	\$	127,275

** Special Taxing Districts:

Library District	\$	26
Health District		138
Extension District		9
Soil Conservation District		5
Oil Springs Fire District		137
River Fire District		(23)
Rockhouse Fire District		23
Thelma Fire District		91
Van Lear Fire District		23
WR Castle Fire District		(4)
West Van Lear Fire District		45

Due Districts or (Refunds Due Sheriff)	\$	470
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*** School Taxing Districts:

Common School District	\$	(314)
City School District		238

Due Districts or (Refunds Due Sheriff)	\$	(76)
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JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

May 21, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Johnson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period May 24, 2007 through May 21, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Johnson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 24, 2007 through May 21, 2008.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 1, 2007 through August 14, 2007.

Note 4. Interest Income

The Johnson County Sheriff earned \$18,129 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Johnson County Sheriff collected \$48,120 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Johnson County Sheriff collected \$3,920 of advertising costs and \$4,935 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Roger T. Daniel, Johnson County Judge/Executive
Honorable Bill Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Johnson County Sheriff's Settlement - 2007 Taxes for the period May 24, 2007 through May 21, 2008, and have issued our report thereon dated September 17, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Johnson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Johnson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's Settlement - 2007 Taxes for the period May 24, 2007 through May 21, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Johnson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 17, 2008

COMMENT AND RECOMMENDATION

JOHNSON COUNTY
BILL WITTEN, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 24, 2007 Through May 21, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Good internal controls dictate that the same employee should not be handling, recording, and preparing cash receipts and disbursements. The employee who handles tax collections also records to the receipts ledger and disbursements ledger, prepares checks, and prepares the monthly reports. The following compensating controls could be implemented to offset the lack of adequate segregation of duties:

- The Sheriff could compare the daily deposit to the daily checkout sheet and the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, receipts ledger, and monthly tax report.
- The Sheriff could compare the monthly reports to the receipts and disbursements ledger for accuracy. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the monthly reports and ledgers.

Sheriff's Response: None.

